



Homeland
Security

September 30, 2004

MEMORANDUM FOR: Karen Armes
Acting Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director
Office of Audits

SUBJECT: *City of Los Angeles, Housing Authority
Los Angeles, California
Public Assistance Identification Number 037-91088
FEMA Disaster Number 1008-DR-CA
Audit Report Number DS-20-04*

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Los Angeles, Housing Authority, Los Angeles, California (Authority). The objective of the audit was to determine whether the Authority expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Authority received an award of \$3.27 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency protective measures and permanent repairs to the Authority's facilities damaged as a result of the Northridge earthquake in January 1994. The award provided 100 percent federal funding for emergency work until January 25, 1994, and 90 percent FEMA funding thereafter for 13 large projects and 6 small projects.¹ The audit covered the period January 17, 1994, to June 11, 2003, and included the review of 13 large and 2 small projects with a total award of \$3.24 million (see attached Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included review of FEMA, OES, and Authority records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$42,400.

RESULTS OF AUDIT

The Authority earned \$566,979 of interest income on a \$2.9 million FEMA advance and the interest was not remitted to FEMA as required. In addition, the Authority claimed \$59,675 of costs not supported with documentation showing that the charges were for disaster related work (FEMA's share is \$53,708).

Finding A – Interest Earned on Federal Advances

In response to the devastation caused by the Northridge Earthquake, FEMA advanced OES a total of \$201 million in public assistance funds. Of the \$201 million, OES advanced \$75 million to the City of Los Angeles (City) and the City re-distributed the funds to various City departments that had applied for disaster assistance separately. Of the \$75 million, the Authority received a \$2.9 million advance of FEMA funds to cover the costs of eligible disaster FEMA projects. As a condition to receiving the funds, the Authority agreed to forward all interest earned to the City for eventual payment to OES.²

The Authority's accounting records supporting project activities showed that the Authority deposited the advance into an interest bearing account in March 1994. These records also showed that the Authority began withdrawing the funds in January 1996. However, the records did not always include evidence the funds were used to pay for approved FEMA costs. Authority officials explained that the monies were used to pay for FEMA approved expenditures. Unaware that the City had provided advance funding to the Authority, FEMA provided the Authority additional funds as specific projects were approved and costs were reported.

OES reconciled the disaster funding provided to the Authority, and on June 24, 1998, adjusted the Authority's advance funding by \$71,136 for project costs not funded by FEMA. On October 6, 1998, FEMA deobligated the remaining balance of \$2,828,864 (\$2,900,000 - \$71,136) as part of a City-wide advance funding adjustment. Using the Authority records that detailed the interest earned on the advance, the OIG determined that as of October 6, 1998 the Authority had earned \$566,979 in interest income and had not forwarded the earnings to the City, as required. Authority officials agreed that interest was earned on the advance and stated they were not aware of City procedures explaining how to forward the interest income. OES officials stated the City had not forwarded any interest earned on the advance.

The Comptroller General of the United States has consistently held that, except as otherwise provided by law, interest earned by a grantee on funds advanced by the United States under an assistance agreement pending their application to grant purposes belongs to the United States and that all such interest is required to be accounted for as funds of the United States. Further, according to 44 CFR §13.21(h)(2)(i), grantees and subgrantees are required to remit to FEMA the interest earned on advances at least quarterly. Consequently, \$566,979 of interest earned on FEMA advances should be collected from the Authority.

² "Certification" signed on March 8, 1994.

Finding B – Unsupported Project Costs

For projects 20167, 02774, and 51868, the Authority claimed \$59,675 in costs not supported with documentation showing that the charges were for disaster related work. According to 44 CFR § 13.20(b), the Authority is required to maintain accounting records that identify how FEMA funds are used. The audit determined that:

- The Authority claimed \$132,908 for the structural evaluation, engineering, and design costs for six projects (20167, 20168, 20169, 51870, 51871, and 51878). Of the amount claimed, the Authority's records only supported \$126,747. Therefore, the OIG questions \$6,161 (\$132,908 less \$126,747) as an unsupported cost. Since the costs were paid under a single contract and not attributed to individual projects, the OIG allocated the cost to project 20167.
- The Authority claimed \$271,067 for tenant relocation costs for project 02774. However, the Authority's project cost records only supported \$223,740. The remaining \$47,327 was not supported.
- The Authority claimed \$92,027 for repairs to a parking structure for project 51868. However, the Authority's project cost records only supported \$85,840. The remaining \$6,187 was not supported.

Authority officials agreed project records did not include support for the \$59,675 in claimed costs. Consequently, the \$59,675 is questioned.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, recover \$566,979 of interest earned on the FEMA advance and disallow \$59,675 of questionable costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with Authority officials on July 22, 2004. Those officials agreed with the finding and recommendation. The OIG also notified OES officials of the audit results on July 16, 2004 and FEMA Region IX officials on July 29, 2004.

Please advise this office by November 29, 2004, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Ravi Anand, Gale Dwyer, and Tony Fajardo.

Schedule of Audited Projects
City of Los Angeles, Housing Authority
Los Angeles, California
Public Assistance Identification Number 037-91088
FEMA Disaster Number 1008-DR-CA

Project Number	Amount Awarded	Questioned Costs	Finding Reference
<u>Large projects</u>			
02808	\$ 471,830	0	
91958	450,152	0	
20167	73,117	\$ 6,161	B
20168	49,101	0	
20171	205,979	0	
20172	119,465	0	
20169	164,540	0	
51868	91,977	6,187	B
51870	152,499	0	
51878	156,289	0	
51871	154,939	0	
02774	271,067	47,327	B
46099	<u>855,269</u>	<u>0</u>	
Sub-total	\$3,216,224	\$59,675	
<u>Small projects</u>			
01471	6,970	0	
20166	<u>22,304</u>	<u>0</u>	
Sub-total	29,274	0	
Total	<u>\$3,245,498</u>	<u>\$59,675</u>	

Finding Reference Legend:

B. Unsupported Project Costs